Creditreform Bank Rating

SFIL SA (Group)

Creditreform Rating

Long-Term Issuer Rating: AA
Outlook: stable

Short-Term Rating: L1

Preferred Sen. Unsec. Debt: AA
Non-Preferred Sen. Unsec. Debt: -
Tier 2 Capital: -
AT1 Capital: -

10 December 2019

Rating Action:

Creditreform Rating affirms SFIL SA's (Group) long-term issuer rating at 'AA' (Outlook: stable)

Creditreform Rating (CRA) has affirmed the long-term issuer rating of SFIL SA – in the following SFIL - at 'AA' and the short-term rating at 'L1'. The rating outlook is stable.

However, adjustments in our rating methodology for bank capital and debt instruments occurred because of legislative alterations in the European Union. As a result, CRA reclassifies its rating of senior unsecured debt to preferred senior unsecured debt and affirms it at 'AA'.

Please find a complete list of rating actions regarding the bank and its affected subsidiaries at the end of this rating update. In addition, we refer to the more detailed report of the Group from 23 May 2018 on our homepage.

Key Rating Drivers

CRA has affirmed the rating of SFIL and its bank capital and debt instruments because of its periodic updating process for the following reasons:

- High probability of support by the French Republic (Sovereign Rating by CRA: 'AA') due to its important role in local public and export financing and shareholder structure (full state control via direct and indirect holdings)
- Low NPL ratio
- Very low RWA ratio/continuingly low risk profile in area of operations

Rating Rationale

SFIL's credit rating affirmation was primarily driven by the continued important mission of local public and export refinancing as well as the close ties to the French government and associated shareholders. As such, we assume a high probability of support by the French Republic in case of distress, due to its obligation as shareholder to recapitalize the bank under Art. 511-42 French Monetary and Financial Code, and as such assign the bank the Sovereign Rating of the French Republic ('AA' / stable).

Profitability

SFIL's profitability increased compared to the previous year on account of a massively lessened income tax burden.

Overall, the operating income was virtually unchanged compared to the previous year. In detail, however, the bank observed a lessened net interest income that was counteracted by an increase in net trading income due to positive net gains from hedge accounting.

Personnel expense was down by €3m over the previous year not least due a decreased headcount, down to 388 employees from 405 in the previous year. Cost of risk increased by €27m to reach a low, net positive allocation after two consecutive positive earnings contributions.

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As a result, the pre-tax profit was more than a fourth lower than the previous year's result. However, a lessened tax burden through positive tax audit effects after the tax authority had levied adjustments to the 2012 and 2013 audit.

Hence, SFIL reported a net profit of €63m, an increase of €9m or 17% over the previous year's result.

Subsequently, income ratios relating to the net profit increased. The cost income ratio stands at 60% after 61.4% in the previous year.

Asset Situation and Asset Quality

After three years of consecutive decrease, total assets increased slightly over the previous year.

With the implementation of IFRS9, the balance sheet presentation changed considerably and as such changes from one year to another are difficult to monitor. In comparison to 1 January 2018, when first prepared in accordance to IFRS9, no significant changes occurred over the course of the year; the balance sheet increased only very slightly.

With the first time application of IFRS9, NPL figures are presented in terms of Stage 3 customer loans, and potential problem loans (PPL) as Stage 2 customer loans. With the first time application, the NPL ratio increased to 2.17%. Compared with 1 January 2018, however, total NPL declined by about a fourth while net loans to customers at amortized cost increased by 2.5%.

The RWA ratio was very low with 6.85% of total assets.

Refinancing and Capital Quality

The balance sheet size increased primarily through additional bank deposits and derivative liabilities. As a development bank, SFIL need not to adhere to the minimum leverage ratio of 3%, which stands at 1.9% due to the very small total equity position. Due to the very low RWA ratio, however, regulatory capital ratios are very high with 25.1% CET1 ratio (phased-in) and 24.8% fully loaded.

Liquidity

Traditional liquidity measures are non-applicable for SFIL due to the nature of its business. Nevertheless, the LCR stood at 422%, well in access of the 100% minimum.

Outlook

We consider the outlook of SFIL's long-term issuer rating and its bank capital and debt in-struments as stable.

In addition, we assume a stable political and economic environment in SFIL's markets of operations.

Scenario Analysis

The rating remains sensitive to the rating of the French Republic. An up- or downgrade of the French Republic would likely result in an up- or downgrade of the rating of SFIL. The rating of preferred senior unsecured debt would behave similarly due to our rating methodology.

As such, in a best case scenario where the finances of the French Republic improve, the sovereign rating may receive an upgrade. Likewise, in a worst case scenario, the sovereign rating of the French Republic may decrease and with it the rating of SFIL.

CRA's rating actions at a glance

SFIL SA (Group):

- Long-Term Issuer Rating affirmed at 'AA', stable outlook
- Short-term rating affirmed at 'L1'
- Senior unsecured debt reclassified to preferred senior unsecured debt and affirmed at 'AA'

Ratings Detail

Bank ratings

The bank ratings are dependent on a host of quantitative and qualitative factors. An improvement in either sub-category may result in a higher rating score.

LT Issuer / Outlook / Short-Term **AA / stable / L1**

Bank Capital and Debt Instruments Ratings

The ratings for bank capital and debt instruments are inter alia dependent on subordination and relative size of the instrument class, based on the long-term issuer rating of the bank.

Preferred senior unsecured debt (PSU): **AA**
Non-preferred senior unsecured debt (NPS): **-**
Tier 2 (T2): **-**
Additional Tier 1 (AT1): **-**

Ratings Detail and History

Please consult our website www.creditreform-rating.de for additional information regarding the dates of publication.

Figure 1: Rating History

Bank Issuer Rating	Rating Date	Result
LT / Outlook / Short-Term (Initial)	24.05.2018	AA- / stable / L1
Rating Update	31.08.2018	AA / stable / L1
Rating Update	10.12.2019	AA / stable / L1
Bank Capital and Debt Instruments	**Rating Date**	**Result**
Senior Unsecured / T2 / AT1 (Initial)	24.05.2018	AA- / - / -
Senior Unsecured / T2 / AT1	31.08.2018	AA / - / -
PSU / NPS / T2 / AT1	10.12.2019	AA / - / - / -

Appendix

Figure 2: Group income statement | Source: eValueRate / CRA

Income Statement	2015	2016	2017	%	2018
Income (€000)					
Net Interest Income	89.000	142.000	174.000	-25,9	129.000
Net Fee & Commission Income	-4.000	0	3.000	-66,7	1.000
Net Insurance Income	-	-	-	-	-
Net Trading Income	1.000	-4.000	7.000	> +100	55.000
Equity Accounted Results	-	-	-	-	-
Dividends from Equity Instruments	-	-	-	-	-
Other Income	-	-	-	-	-
Operating Income	**86.000**	**138.000**	**184.000**	**+0,5**	**185.000**
Expenses (€000)					
Depreciation and Amortisation	3.000	5.000	6.000	+66,7	10.000
Personnel Expense	47.000	49.000	51.000	-5,9	48.000
Tech & Communications Expense	-	-	-	-	-
Marketing and Promotion Expense	-	-	-	-	-
Other Provisions	-	-	-	-	-
Other Expense	52.000	53.000	56.000	-5,4	53.000
Operating Expense	**102.000**	**107.000**	**113.000**	**-1,8**	**111.000**
Operating Profit & Impairment (€000)					
Pre-impairment Operating Profit	**-16.000**	**31.000**	**71.000**	**+4,2**	**74.000**
Asset Writedowns	14.000	-18.000	-22.000	< -100	5.000
Net Income (€000)					
Non-Recurring Income	-	-	-	-	-
Non-Recurring Expense	-	-	-	-	-
Pre-tax Profit	**-30.000**	**49.000**	**93.000**	**-25,8**	**69.000**
Income Tax Expense	29.000	31.000	39.000	-84,6	6.000
Discontinued Operations	-	-	-	-	-
Net Profit (€000)	**-59.000**	**18.000**	**54.000**	**+16,7**	**63.000**
Attributable to minority interest (non-controlling interest)	-	-	-	-	-
Attributable to owners of the parent	-	-	-	-	-

Figure 3: Group key earnings figures | Source: eValueRate / CRA

Income Ratios (%)	2015	2016	2017	%	2018
Cost Income Ratio (CIR)	118,60	77,54	61,41	-1,41	60,00
Cost Income Ratio ex. Trading (CIRex)	120,00	75,35	63,84	+21,54	85,38
Return on Assets (ROA)	-0,07	0,02	0,07	+0,01	0,09
Return on Equity (ROE)	-4,26	1,30	3,68	+0,35	4,03
Return on Assets before Taxes (ROAbT)	-0,04	0,06	0,13	-0,03	0,09
Return on Equity before Taxes (ROEbT)	-2,17	3,53	6,33	-1,92	4,41
Return on Risk-Weighted Assets (RORWA)	0,00	0,33	0,93	+0,22	1,15
Return on Risk-Weighted Assets before Taxes (RORWAbT)	-0,52	0,90	1,61	-0,35	1,26
Net Interest Margin (NIM)	0,11	0,18	0,26	+0,00	0,26
Pre-Impairment Operating Profit / Assets	-0,02	0,04	0,10	+0,00	0,10
Cost of Funds (COF)	5,00	4,24	3,57	+0,15	3,72
Change in % Points					

Figure 4: Development of assets | Source: eValueRate / CRA

Assets (€000)	2015	2016	2017	%	2018
Cash and Balances with Central Banks	3.361.000	4.878.000	2.560.000	-24,7	1.927.000
Net Loans to Banks	2.530.000	390.000	295.000	-19,0	239.000
Net Loans to Customers	63.209.000	59.682.000	57.014.000	-11,8	50.279.000
Total Securities	1.304.000	2.037.000	2.790.000	> +100	10.947.000
Total Derivative Assets	9.823.000	9.494.000	7.233.000	-3,5	6.980.000
Other Financial Assets	-	-	-	-	-
Financial Assets	**80.227.000**	**76.481.000**	**69.892.000**	**+0,7**	**70.372.000**
Equity Accounted Investments	-	-	-	-	-
Other Investments	-	-	-	-	-
Insurance Assets	-	-	-	-	-
Non-current Assets & Discontinued Ops	-	-	-	-	-
Tangible and Intangible Assets	21.000	27.000	35.000	+11,4	39.000
Tax Assets	121.000	113.000	78.000	+2,6	80.000
Total Other Assets	3.314.000	2.316.000	2.427.000	-8,1	2.231.000
Total Assets	**83.683.000**	**78.937.000**	**72.432.000**	**+0,4**	**72.722.000**

Figure 5: Development of asset quality | Source: eValueRate / CRA

Asset Ratios (%)	2015	2016	2017	%	2018
Net Loans/ Assets	75,53	75,61	78,71	-9,58	69,14
Risk-weighted Assets/ Assets	6,85	6,87	7,97	-0,45	7,52
NPLs*/ Net Loans to Customers	1,06	0,93	0,98	+1,19	2,17
NPLs*/ Risk-weighted Assets	11,74	10,27	9,66	+10,26	19,92
Potential Problem Loans**/ NPLs*	-	-	-	-	315,78
Reserves/ NPLs*	19,17	19,03	9,50	-6,38	3,12
Reserves/ Net Loans	0,20	0,18	0,09	-0,03	0,07
Net Write-offs/ Net Loans	0,02	-0,03	-0,04	+0,05	0,01
Net Write-offs/ Risk-weighted Assets	0,24	-0,33	-0,38	+0,47	0,09
Change in %Points					

Figure 6: Development of refinancing and capital adequacy | Source: eValueRate / CRA

Liabilities (€000)	2015	2016	2017	%	2018
Total Deposits from Banks	8.837.000	6.720.000	4.215.000	-54,3	1.928.000
Total Deposits from Customers	-	-	-	-	0
Total Debt	57.740.000	57.681.000	56.315.000	+6,7	60.068.000
Derivative Liabilities	13.537.000	11.063.000	8.950.000	-13,9	7.706.000
Securities Sold, not yet Purchased	-	-	-	-	-
Other Financial Liabilities	-	-	-	-	-
Total Financial Liabilities	**80.114.000**	**75.464.000**	**69.480.000**	**+0,3**	**69.702.000**
Insurance Liabilities	-	-	-	-	-
Non-current Liabilities & Discontinued Ops	-	-	-	-	-
Tax Liabilities	2.000	6.000	1.000	> +100	8.000
Provisions	43.000	45.000	48.000	-58,3	20.000
Total Other Liabilities	2.139.000	2.034.000	1.434.000	-0,3	1.429.000
Total Liabilities	**82.298.000**	**77.549.000**	**70.963.000**	**+0,3**	**71.159.000**
Total Equity	**1.385.000**	**1.388.000**	**1.469.000**	**+6,4**	**1.563.000**
Total Liabilities and Equity	**83.683.000**	**78.937.000**	**72.432.000**	**+0,4**	**72.722.000**

Figure 7: Development of capital ratios | Source: eValueRate / CRA

Capital Ratios (%)	2015	2016	2017	%	2018
Total Equity/ Total Assets	1,66	1,76	2,03	+0,12	2,15
Leverage Ratio	1,90	1,82	2,00	-0,08	1,92
Phased-in: Common Equity Tier 1 Ratio (CET1)	24,51	24,22	23,06	+2,04	25,10
Phased-in: Tier 1 Ratio (CET1 + AT1)	24,51	24,70	23,51	+2,09	25,60
Phased-in: Total Capital Ratio (CET1 + AT1 + T2)	25,31	25,01	23,83	+2,07	25,90
Fully Loaded: Common Equity Tier 1 Ratio (CET1)	22,33	22,75	22,61	+2,19	24,80
Fully Loaded: Tier 1 Ratio (CET1 + AT1)	22,33	23,23	23,06	+2,24	25,30
Fully Loaded: Total Capital Ratio (CET1 + AT1 + T2)	23,13	23,55	23,38	+2,22	25,60
Change in %- Points					

Figure 8: Development of liquidity | Source: eValueRate / CRA

Not applicable

Regulatory

Creditreform Rating AG was neither commissioned by the rating object nor by any other third party for the rating. The analysis took place on a voluntary basis by Creditreform Rating AG and is to be described in the regulatory sense as an unsolicited rating.

The rating is based on publicly available information and internal evaluation methods for the rated bank. The quantitative analysis is based mainly on the latest annual accounts, interim reports, other investor relations information of the bank, and calculated key figures by eValueRate / CRA. Subject to a peer group analysis were 48 competing institutes.

The information and documents processed met the requirements of the rating system of Creditreform Rating AG as published on the website www.creditreform-rating.de. The rating was carried out on the basis of the rating methodology for bank ratings, the methodology for government related banks as well as the methodology for the rating of bank capital and unsecured debt instruments in conjunction with Creditreform's basic document "Rating Criteria and Definitions".

The complete presentation of the rating methodologies used by Creditreform Rating AG and the basic document "Rating Criteria and Definitions" is published on the following homepage:

www.creditreform-rating.de/de/regulatory-requirements/.

On 10 December 2019, the rating was presented by the analysts to the rating committee and adopted in a resolution.

The rating result was communicated to SFIL SA (Group), and the preliminary rating report was made available to the bank. There was no change in the rating score.

The rating is valid until withdrawal and is subject to monitoring from the rating date (see cover page). The rating will be comprehensively reviewed at least once every year. Within this period, the rating can be updated.

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG (CRA) is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

Conflict of Interests

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or approving credit ratings and rating outlooks.

In case of providing ancillary services to the rated entity, CRA will disclose all ancillary services in the credit rating report.

Rules on the Presentation of Credit Ratings and Rating Outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our policy "Rating Committee," all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, CRA has used following substantially material sources:

1. Aggregated data base by eValueRate
2. Annual Report and interim reports
3. Investors relations information and other publications
4. Website of the rated bank

There are no other attributes and limitations of the credit rating or rating outlook other than displayed on the CRA website. Furthermore CRA considers satisfactory the quality and extent of information available on the rated entity. In regard to the rated entity Creditreform Rating AG regarded available historical data as sufficient.

Between the disclosure of the credit rating to the rated entity and the public disclosure no amendments were made to the credit rating.

The "Basic data" information card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

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The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions, such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings as well as best-case scenario credit ratings are explained in mentioned methodologies and / or in the credit rating report.

The date at which the credit rating was released for distribution for the first time and when it was last updated including any rating outlooks is indicated clearly and prominently in the "Basic data" card as a "Rating action"; first release is indicated as "initial rating", other updates are indicated as an "update", "upgrade or downgrade", "not rated", "confirmed", "selective default" or "default".

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within „Basic data" information card.

In accordance to Article 11 (2) EU-Regulation (EC) No 1060/2009 registered or certified credit rating agency shall make available in a central repository established by ESMA information on its historical performance data, including the ratings transition frequency, and information about credit ratings issued in the past and on their changes. Requested data are available at the ESMA website: https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml.

An explanatory statement of the meaning of Creditreform's default rates are available in the credit rating methodologies disclosed on the website.

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